

REBUTTAL TESTIMONY

OF

KEVIN R. KOCHEMS

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is Kevin R. Kochems. My business address is 220
Operation Way, Cayce, South Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by SCANA Services, Inc. as Manager of Regulatory
Accounting. I was previously employed as Director of Nuclear Financial
Administration with the New Nuclear Development Project (the "Project"
or the "NND Project"). I am testifying on behalf of South Carolina Electric
& Gas Company ("SCE&G" or the "Company").

**Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
BUSINESS EXPERIENCE.**

A. I am a 1998 graduate of Canisius College, with a Bachelor of
Science Degree in Accounting. In 2002, I joined SCANA's Internal Audit
Department. In 2006, I accepted an accounting position with SCE&G's

1 NND Project. In 2011, I was promoted to Manager of Nuclear Financial
2 Administration. Following the Company's decision to abandon the NND
3 Project, I became Manager for Regulatory Accounting in the Rate
4 Department at SCANA Services.

5 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION IN THE**
6 **PAST?**

7 A. Yes, I have testified in this docket and one prior docket before the
8 South Carolina Public Service Commission (the "Commission").

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. My testimony responds to certain assertions made by the Office of
12 Regulatory Staff (ORS) related to accounting and commercial matters.

13
14 **Q. HOW DO YOU RESPOND TO KELVIN MAJOR'S CONTENTION**
15 **THAT, IN ADDITION TO THE \$12,000 THAT YOU STATE WERE**
16 **DISALLOWED BY ORS, ORS ALSO DISALLOWED \$198,000 IN**
17 **CONSULTING FEES TO THE FORMER CHAIRMAN AND CEO**
18 **OF SCANA?**

19 A. In fact, my prior testimony and that of Mr. Major are fully
20 consistent. In my prior testimony, I excluded from the \$12,000 that I
21 referenced as being disallowed any amounts "that had been deferred for
22 future consideration." The consulting payments to SCANA's former CEO

1 were part of the amounts that were deferred by SCE&G for future
2 consideration by the Commission. Specifically, Appendix A of the Revised
3 Rates Report issued by ORS in 2016 states that “\$198,000 is related to an
4 SCE&G consultant contract for which the Company has agreed not to seek
5 recovery of financing costs *in this revised rates docket.*” (emphasis
6 supplied.) It was SCE&G’s understanding, as my direct testimony
7 reflected, and as we had discussed with ORS at the time (2016), that this
8 amount had been deferred for future consideration but was not disallowed.

9 **Q. HOW DO YOU RESPOND TO THE ASSERTION THAT SCE&G**
10 **HAS AGREED NOT TO SEEK RECOVERY OF AMOUNTS FOR**
11 **ADJUSTMENTS TO EXPENSES INCURRED PRIOR TO**
12 **SEPTEMBER 30, 2017?**

13 A. That is not correct. It has always been SCE&G’s position that while
14 it would expense new cost items incurred in connection with the wind-
15 down and demobilization of the NND Project after September 30, 2017 it
16 would continue to recognize adjustments to costs incurred prior to that date.
17 As indicated in my prior testimony, the “costs that will be charged to the
18 project” include “costs incurred for work done on this Project before
19 September 30, 2017 *and finalized after this date.*” (emphasis supplied.)
20 There was never any intent to indicate that SCE&G will not make
21 adjustments to prior incurred costs. I believe that is clear in the language
22 we have used in our filing and in the financial exhibits attached to that

1 filing, which clearly record adjustments after September 30, 2017 related to
2 costs incurred prior to that date.

3 **Q. IS THIS AN IMPORTANT POINT?**

4 A. Yes. This is a matter of specific importance because the South
5 Carolina Department of Revenue has asserted a claim for sales taxes
6 associated with purchases that were made prior to September 30, 2017.
7 While we are strongly contesting the assertion, if those claims are upheld,
8 the resulting cost will be deemed to have been incurred prior to September
9 30, 2017 when the purchases at issue occurred. If the taxes are assessed
10 and collected, they would constitute a governmentally imposed tax, and
11 would constitute valid capital costs of the NND Project which should be
12 subject to recovery through rates.

13 **Q. HOW DO YOU RESPOND TO THE ASSERTION THAT \$42,873 IN**
14 **FRAUDULENT ACTIVITY SHOULD BE DEDUCTED FROM NND**
15 **PROJECT INVESTMENT?**

16 A. This adjustment arises out of a bid rigging scheme that SCE&G
17 discovered with respect to certain purchases of office furniture for which
18 SCE&G was invoiced by CB&I. Specifically, in 2015, an SCE&G
19 employee audited competitive bidding documents related to an invoice for
20 office furniture submitted by CB&I and noticed that certain competitive
21 bids seem to be in the same handwriting as the winning bid. SCANA
22 investigated and determined that the winning bidder had improperly

1 submitted the competitive bids which allowed that bidder to bid prices that
2 were above market. Based on that investigation, SCE&G disputed certain
3 payments to the vendor in question, as well as the salary cost of the CB&I
4 employee who oversaw the purchase.

5 Those disputes were outstanding at the time of the 2015 Amendment
6 to the EPC Contract and were specifically referenced as one of the claims
7 that were resolved as part of the 2015 Amendment to the EPC Contract.
8 The claims in question and their resolution were reviewed and audited by
9 ORS and ORS endorsed the settlement of the claims, recommending that
10 the 2015 Amendment to the EPC Contract (including its modified cost
11 schedules) “should be accepted and approved by the Commission as a fair,
12 reasonable and full resolution of all issues. ” Order No. 2016-794, at 9.
13 Because this \$42,873 claim was resolved as part of the 2015 Amendment,
14 no further adjustments regarding it are warranted.

15 **Q. HOW DO YOU RESPOND TO THE ASSERTION THAT**
16 **OUTSTANDING LIENS AGAINST THE PROJECT SHOULD NOT**
17 **BE PAID OUT OF THE TOSHIBA CORPORATE GUARANTEE**
18 **SETTLEMENT PAYMENT?**

19 **A.** As the Commission is aware, the Toshiba Corporation has made a
20 corporate guarantee settlement payment to SCE&G to compensate SCE&G
21 for damages arising out of Westinghouse’s breach and rejection of the EPC
22 Contract. When SCE&G negotiated the amount of the guaranty settlement,

1 one major component of the calculation of the claim was the value of the
2 liens which were specifically excluded from the calculation of the liability
3 limitation associated with the guaranty and are one part of the reason that
4 the guarantee payment significantly exceeded the contractual limitation on
5 liability. For that reason, SCE&G has consistently asserted that the
6 proceeds received from Toshiba should be used for repaying the liens. That
7 was the intent and purpose behind excluding the lien payment obligations
8 from the limitation of liability in the Toshiba guaranty.

9 **Q. WHAT IS THE CURRENT STATUS OF THESE LIENS?**

10 **A.** SCE&G continues to contest these liens and expects that some of
11 them may be settled by the bankruptcy estate of Westinghouse as part of its
12 emergence from bankruptcy. In addition, as part of the monetization of the
13 Toshiba Settlement, SCE&G also succeeded in negotiating limits on its
14 remaining exposure to certain of these liens. Even so, some lien payments
15 may be required before the matter is entirely settled.

16 **Q. WHAT DOES SCE&G PROPOSE?**

17 **A.** SCE&G believes that it is entirely appropriate that any lien
18 payments be applied against the Toshiba settlement proceeds in
19 determining the net value of those proceeds to be provided to customers.
20 To treat lien payments otherwise would be contrary to the nature and basis
21 of the corporate guarantee payment. It would not be appropriate to refuse

1 to allow the proceeds of that payment to be used to liquidate obligations it
2 was specifically intended to cover. It is also important to note that these
3 liens relate to work which was performed by vendors prior to the
4 September 30, 2017 and any future payments would, under accrual
5 accounting, be included in costs recognized in that period. As such, if they
6 are not applied to the Toshiba settlement proceeds, they should be included
7 in the capital costs of the project and therefore recoverable.

8 **Q. IN CONCLUSION, IN YOUR REBUTTAL TESTIMONY WHAT**
9 **ARE YOU ASKING THE COMMISSION TO DO?**

10 A. I respectfully ask the Commission to recognize that SCE&G has not
11 stated that it will forego recovery of adjustments to costs incurred prior to
12 September 30, 2017 as such adjustments are entirely appropriate. SCE&G
13 also asks the Commission to recognize that it is appropriate for SCE&G to
14 pay outstanding liens associated with the NND Project out of the proceeds
15 of the Toshiba corporate guarantee payment since a portion of those funds
16 were specifically received and intended to cover those liens. In addition, for
17 reasons stated above, SCE&G would ask the Commission to forgo making
18 the adjustments to costs proposed by ORS which my testimony shows not
19 to be justified.

20 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A. Yes it does.